

Pensions & Investment Age

© Entire contents copyright 1983 by Crain Communications Inc. All rights reserved.

The newspaper of corporate and institutional investing • \$2.50 an issue • \$52 a year • August 8, 1983

P.I.P.E.R.
2nd quarter returns
Charts, stories on page 13

AMAX may get excess with active plan intact

IRS, PBGC at loggerheads on plan

By Nancy Webman and Joel Chernoff

WASHINGTON — Two government agencies are at odds over a new termination approach planned by AMAX Inc. that would allow it to recoup \$100 million in excess plan assets without terminating the full plan.

Under the strategy, the Greenwich, Conn., company will spin off its pension fund for salaried workers into two plans — one for active participants and certain former employees and one for retired participants. All of the excess assets will be pumped into the retirees' plan.

After annuities are purchased for the retired lives, the retirees' plan would be terminated and AMAX would capture \$100 million to \$130 million. The plan for active employees would not be terminated.

However, the Internal Revenue Service and the Pension Benefit Guaranty Corp. are at odds over whether employers may recoup excess pension assets by spinning off a fund. They face a showdown or compromise now that AMAX is pursuing that course.

Although many companies are considering this two-step termination, AMAX's is the first public move. Several other sponsors, however, have chosen to recover excess assets by terminating over-

Continued on page 66

New sub for passive

Fouse, 3 others leave Wells Fargo for Mellon

By Steve Hemmerick

SAN FRANCISCO — Bill Fouse, Wells Fargo Investment Advisors Division's chief investment officer, and three other key bank personnel have resigned to open a new subsidiary of Mellon Bank in San Francisco.

The Mellon sub will offer the same passive investment products as Wells Fargo. Some top-level executives in the investment field expect the new subsidiary, Mellon Capital Management Corp., will try to woo Wells Fargo clients.

Bill Joss, manager of the Wells Division, said such an effort might be made, especially as Mr. Fouse and one other executive gave "no notice" and said that to stay any

longer at Wells would be a "conflict of interest." Mr. Fouse was named chairman of the new subsidiary.

The moves have caused some Wells Fargo clients concern. Already, a spokesman for the New York City Teachers' Variable Fund said the trustees were "very concerned" about the resignations. The fund has \$330 million under management with Wells Fargo.

Along with Mr. Fouse, others resigning are Tom Loeb, formerly core portfolio manager for the division; Polly Shouse, a vice president who had been in charge of a Wells Fargo futures program; and Cary Zellerbach, who had been Wells Fargo's client service officer. Mr. Loeb is president of the new subsidiary.

Mr. Fouse stressed that neither he nor Mr. Loeb nor Mellon Bank had told anyone at Wells Fargo about their planned resignations in late July or their plans to open a new bank subsidiary.

Stressing his words, Mr. Fouse told *Pensions & Investment Age*, "Neither Tom Loeb nor I approached any personnel or any clients (of Wells) prior to our resignations."

Ms. Shouse and Ms. Zellerbach were hired after Messrs. Fouse and Loeb resigned to open the subsidiary, which will open this fall.

But Mr. Joss suspects an effort will be made to take Wells' clients, saying the departures "cut the heart out" of his organization. "We

Continued on page 63

\$500 million contribution is planned by Chrysler

Seeks to reduce unfunded liabilities with added payment

By Pavan Sahgal

NEW YORK — The Chrysler Corp. may contribute as much as \$500 million to its \$1.9 billion pension fund next year.

The company expects to move to close the shortfall in its \$1.3 billion of accrued but unfunded pension liabilities with a \$250 million catch-up payment in 1984 in addition to its normal \$250 million contribution.

"Next year we are going to be making a catch-up payment of not only the normal quarter-billion that we make to keep up with the benefits, but we'll make an extra quarter-billion payment to close that gap," Robert S. Miller Jr., executive vice president finance, said in an interview.

Mr. Miller said the company has

Chrysler plans to diversify— Corporate Finance, page 23

more than one retiree per active worker, with the ratio of active workers to retirees being about 1:1.1.

Chrysler has 87,000 people on direct payroll.

"When a worker goes home and feels tired, he ought to. He has had to generate the value to support two families," Mr. Miller observed.

Reflecting on the Chrysler experience, Mr. Miller said that while it might be politically appealing to provide more benefits, in time those benefits tend to become entit-

lements.

"Then, what do you do with a population that is living more years and working fewer hours? How do you economically support it?" he added.

Bridging the shortfall in its pension liabilities may also add to Chrysler's corporate arsenal in other ways, according to one investment manager.

It would not only reduce reported profits and give the company greater leverage in bargaining wage issues with its unions in the new year, but it would also reduce Chrysler's unfunded liability.

Reducing the unfunded pension liability would make Chrysler Corp. a more viable merger or acquisition candidate or joint venture partner.

Late news

Rangaire ends plan

CLEBURNE, Texas — Apparently in an attempt to boost its 1983 earnings, Rangaire Corp. terminated its pension plan for non-union employees and expects to recover about \$700,000 in excess assets. The defined benefit plan, which has about \$2 million in assets according to the 1983 Money Market Directory, will be replaced with a defined contribution plan.

Allied Corp. drops 5

MORRISTOWN, N.J. — Allied Corp. dropped five investment managers in the process of consolidating the Allied and Bendix pension plans. The number of managers for both plans, which have combined assets of \$2.4 billion, was reduced from 18 to 13, confirmed Edward T. Tokar Jr., director-investments. The deletions affected equity managers for both plans, but

Mr. Tokar declined to identify the firms.

Fund to be terminated

DETROIT — The Stroh Brewery Co. is terminating its pension fund for salaried workers and plans to recoup about \$81 million in excess assets. The plan has about \$138.6 million in assets, of which more than 58% will be returned to company coffers, according to documents filed with the PBGC.

Police fund to rehab

NEW YORK — The New York City Police Department pension fund announced plans to invest \$50 million — about 2% of its assets — to rehabilitate 5,000 apartments in deteriorating neighborhoods of New York. The investment will be made through mortgages on run-down buildings, with the rate at

Continued on page 2



Capitol Building, Montgomery: Alabama policy encourages its public funds to invest in the state as long as quality and yields don't suffer

Makes \$75 million loan

Alabama fund invests in U.S. Steel project

By Linda Savage Ruhe

MONTGOMERY, Ala. — The \$3.2 billion Retirement Systems of Alabama has lent \$75 million of the \$495 million the United States Steel Corp. needs for construction at its plant in Fairfield, Ala.

Twenty-nine insurance companies reportedly have supplied the rest of the money for the project from their general accounts and commingled funds.

They include Metropolitan Life Insurance Co., New York for \$100 million; Equitable Life Assurance Society of the United States, New York and New York Life Insurance Co., New York, each for \$50 million; and John Hancock Mutual Life Insurance Co., Boston and CIGNA Corp., Hartford, Conn., each for \$25 million. Twenty-four others are reported to have invested amounts ranging from \$2

Continued on page 65

Directory
starts
on
page 43

WASHINGTON DC 20014
4520 EAST-WEST HWY SU 800
STATISTICAL REFERENCE INDEX
FMPJ
DC20014STATLR

Robert C. Brown to offer shares

Bull market prods advisers to mull public stock offerings

By Nancy Webman and Scott Barrett

SAN FRANCISCO — Robert C. Brown & Co., a fixed-income manager with about \$1.6 billion under management, is going public with about 37% of its shares, a move about managers say they have considered because of the bull market and its appetite for new issues carrying high price tags.

Brown's initial public offering is for 1 million shares, to be offered at \$10 to \$12 per share. Dean Witter Reynolds is the underwriter.

Bob Brown, chairman and president of the firm, declined to discuss the details because the deal is in registration.

According to the prospectus, \$5 million of the money raised from the offering will be used to acquire

an insurance company. The balance will increase the equity capital of Pacific Securities, a brokerage and financial futures firm that is a wholly owned subsidiary of Robert C. Brown & Co.

Of the 1 million shares to be sold, 700,000 are being sold by the com-

pany and 300,000 are being sold by shareholders. Of the 300,000, two-thirds are being sold by Mr. Brown. After the offering, he will control 37.5% of the company, compared with owning 60.4% before.

Ernest C. Voigt, executive vice president, is selling 80,000 of the shares he owns, which will reduce

his stake from 19.9% to 11.8%. The other 10 key staffers own only small interests in the firm.

Mr. Brown stands to earn \$2 million to \$2.4 million from the sale.

Brown is the second U.S. investment management firm to go public in recent months. In May, Arnold Bernhard sold 19% of his stake in Value Line Inc. in an initial public offering valued at \$32.3 million (Pensions & Investment Age, May 16).

Several other owners of money management companies say they have toyed with, but rejected for now, the notion of going public.

"When a Value Line goes public or a State Street (Research and Management) gets bought, it makes you think about it," said the founder and owner of a Midwest investment management company.

Continued on page 65

"When a Value Line goes public or a State Street gets bought, it makes you think about it"

Institutional investors stay behind Chrysler's wheel

Despite runup in price, funds aren't rushing for trade-ins

By Linda Savage Ruhe

DETROIT — Institutional investors with large Chrysler holdings are pleased with their holdings.

Despite the dramatic runup in the price of Chrysler stock in the past 12 months — from around \$6 a share last summer to a peak around \$36 — the institutions have not launched a major profit-taking campaign, although some are trimming their holdings believing they have become overweighted in the stock.

Most, however, seem to be happy with their Chrysler holdings, expecting neither a further dramatic rise nor a precipitous drop in the stock price.



Among the larger institutional investors in the stock are the \$1.45 billion Illinois State Universities' Retirement System, Champaign, Ill., which owns 150,000 shares of Chrysler through its investment manager Alliance Capital Management Corp., Chicago; Batterymarch Financial Management, Boston, which holds 1.6 million shares of the stock; Fort Hill Investors Management Corp., Boston, with 100,000 shares of the stock; and Lynch & Mayer Inc., New York, which holds just less than a million shares of the stock.

According to Computer Direction Advisors, Silver Spring, Md., the most recent listing of stocks held by institutions shows 65 institutional investors held 45% of the 74.5 million outstanding shares of Chrysler stock for the quarter ending March 31.

Many of the investment managers trimming their positions were early investors in the stock last summer when its price hovered around \$6 and \$7 a share. It was when the price peaked at close to \$36 a share that some decided to take their profits.

The stock is now running at slightly more than \$30 a share.

For many of the investors, Continued on page 61

Late news

Continued from page 1
0.2% to 1.2% more than the prevailing Ginnie Mae yield.

The mortgages will be originated and sold to the fund by the New York City Community Preservation Corp. Harrison J. Goldin, city comptroller, said the investment will be insured by the State of New York Mortgage Agency or the Federal Housing Administration, and will earn market rates of return.

Stanford appoints 2

STANFORD, Calif. — Stanford University's endowment fund invested \$1 million in Bay Partners, a venture capital fund, according to Rodney H. Adams, treasurer. The San Francisco Bay-area partnership invests directly in small company start-ups. Stanford also put \$20 million in a commingled international equity fund with The Common Fund, Fairfield, Conn.

Gillette joins Emerson

ST. LOUIS — Robert Gillette, formerly corporate director of pension investments at Bendix Corp., Southfield, Mich., joined Emerson Electric Co., St. Louis, as director of pension management. Mr. Gillette, who joined Emerson July 5, oversees a \$353 million master trust.

International move

NEW YORK — International Telephone and Telegraph Corp.'s \$1 billion pension fund named its first three specialized international investment managers: Morgan Grenfell Investment Services Ltd., New York; G.T. Capital Management, San Francisco; and Capital Guardian Trust Co., Los Angeles. Each firm will receive \$10 million.

Trinity College hires

HARTFORD, Conn. — Trinity College's \$65 million endowment fund selected Grantham, Mayo, Van Otterloo & Co., Boston, as its first international manager to run \$3 million in foreign equities, according to Robert Pedemonti, treasurer and director of finance.

CD private placement

NEW YORK — A.G. Becker Paribas has made a \$50 million private placement of variable-rate certificates of deposit, indexed to

the prime rate, and issued by the New York agency of the Fuji Bank, Japan. The offering, maturing in three years, was placed with institutional clients recently.

The new CDs are pegged directly to, and below, the prevailing U.S. prime rate.

Ogden appoints BMI

NEW YORK — Ogden Corp. appointed BMI Capital Corp., New York, to manage an undisclosed portion of its more than \$200 million pension fund in small- and medium-capitalization stocks, according to sources. One other manager was hired but not identified.

PRISA returns 3.1%

NEW YORK — Prudential's PRISA picked up \$569 million in new contributions in the second quarter of 1983. At the same time, the fund paid out about \$200 million to satisfy all outstanding withdrawal requests. PRISA now stands at about \$4.4 billion. The fund's return for the second quarter, before management fees, was 3.1%.

Equitable Life also reported returns for its \$2.2 billion Account #8 of 3.8% for the second quarter, and 5.9% for the second half of the year.

Personnel changes

PASADENA, Calif. — Howard B. Schow, chairman of the board of Capital Research and Management Co., has resigned to open his own investment counseling firm.

Joining him as an associate is Pheo Kolokotronis, who had been a senior vice president.

NEW YORK — James R. McCall, former director of research and portfolio management at Keystone Custodian Funds, joined Lovett, Ward & Bertelsen Investment Management, Boston, as a partner.

NEW YORK — The Chase Manhattan Bank filled two new positions in its Pension Trust Financial Service Group. Richard T. McSherry is now vice president-account planning/requirements and Douglas R. Young is vice president-marketing/new business.

BOSTON — Richard T. O'Rourke, senior vice president of First City National Bank, Houston, will join Fidelity Management Trust Co., Boston, as an executive vice president Aug. 15, according to J. Gary Burkhead, president.

Mellon, Wachovia

State line no barrier to lockbox services

By Richard J. Gillespie

PITTSBURGH — Two cash management banks, Mellon Bank and Wachovia Bank & Trust, have made the leap across state lines to extend their lockbox activities.

While legislators in Washington debate the introduction of interstate banking, Mellon announced it would extend its lockbox activities to seven additional states in an arrangement with Sears, Roebuck & Co.

The Pittsburgh bank already had made public an intention to open a lockbox facility in Chicago, so it now has nine lockbox locations, the most of any bank in the country, according to a spokesman.

Wachovia Bank & Trust made the jump from its base in Winston-Salem, N.C., announcing it will set

up a second lockbox collection point for its corporate clients in Atlanta.

That puts Wachovia in direct conflict with major Atlanta cash management banks like Citizens and Southern National Bank in Atlanta and First National Bank of Atlanta.

These latest moves underline the fierceness of competition to win corporate cash management relationships. Dick Poje, president of consultants Phoenix-Hecht, also sees that rivalry in the aggressive pricing of bank consulting studies.

Mr. Poje said he had seen bids of \$4,000 put out by banks on cash management consulting studies in which the man-hours alone would cost \$40,000.

But in the collections area, where lockboxes are the primary cash management tool, banks have fastened onto multiple lockbox loca-

Continued on page 64

Highlights

CANADA

Fund combines political strategy, high returns	43
Top 10 firms hold half of tax-exempt assets	43
Directory of Canadian advisers begins	43

CORPORATE FINANCE

Chrysler starts diversification drive	23
Credit risks haunt corporations	23
Debt issues raise \$30.7 billion in first half	23

DAN DORFMAN

Hottest stock could be big bust	38
---------------------------------	----

FEATURES

MPT gains status: Rosenberg, Rudd	35
Clearing the international picture: MacQueen	36

GENERAL NEWS

California banks brace for the big quake	4
Pension funds commit to Bridge Capital fund	6
Banks beat noon presentment	8
Insurance firms not hurt by defaulted bonds	9
System gets approval to hire outside	19
Study: number of small banks will dwindle	20
Los Angeles Police fund ups equities	21
Pension executives seek national group	33
Multiemployer funds average 25%	34
Bank mergers may result in new philosophies	39

P.I.P.E.R.

Two equity funds exceed 25%	13
Bond funds lack sparkle in 2nd quarter	13
Manufacturers Life tops pooled equity funds	13
P.I.P.E.R. tables begin	13

REAL ESTATE

Open-end fund fights closed-end tide	29
Mortgages find way into bond portfolios	29
Wrap-up	29

SPONSOR'S CORNER

Williams: Professionalizing sponsors	40
--------------------------------------	----

OTHER DEPARTMENTS

Classifieds	65
Corrections	4
Datebook	57
Directory corrections	56
Editorials	10
Letters	10
Money movers	66
People	58

Vol. 11, No. 16—Pensions & Investment Age (ISSN 0273-5465) is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 740 Rush St., Chicago, Ill. 60611. Copyright 1983.

p.i.p.e.r.

Top performers for equity fixed-income funds in quarter

Fixed-income portfolios lack sparkle in 2nd quarter

By Kimberly Blanton

CHICAGO — Banks and insurance companies reported lackluster second-quarter fixed-income returns, according to Pensions & Investments' Performance Evaluation Report.

The median return dropped to 1.5% in the second quarter from 3.1% in the first.

P.I.P.E.R. covers the returns of 228 banks' and insurance companies' pooled fixed-income portfolios.

The P.I.P.E.R. median fell between the other indexes, which also reflected a second-quarter drop. The Salomon Bros. High Grade Bond index dropped to 1.3% from 3.7% in the first quarter; Lehman Bros. Kuhn Loeb Government/Corporate Bond index dropped to 1.6% from 3.1%.

First of Shreveport, Louisiana, came in first during the second quarter, with a return of 3.5%. It was followed by Merchants National Bank of Mobile, Alabama, and Ohio Citizens Trust Co., Toledo, both with 3.4%; Merchants National Bank of Cedar Rapids, Iowa, 3.3%; Central Fidelity Bank, Lynchburg, Va., 3.1%; and First Wisconsin National Bank of Madison, and Key Trust Co., Albany, N.Y., both with 3%.

For the one-year period ending June 30, First Wisconsin National Bank came in first, with a 44.3% return. It was followed by United Bank of Denver, with 40%; Central National Bank of Cleveland with 39.6%; AmSouth, with 39.1%; and First Variable Life, with 38.5%.

Northern Central Bank, Williamsburg, Pa., had the highest return for the three-year period, with a 17.4% annualized return. Next were First and Merchants, Richmond, Va., at 16.6%; Fourth National Bank and Trust Co., Wichita, Kan., 16.2%; and Cullen Center Bank Trust, Houston, 16.2%.

Fourth National Bank, Wichita, had the highest five-year return, with 13.9% annualized. It was followed by First and Merchants, Richmond, 13.2%; Seattle-First National Bank, 12.7%; Hibernia National Bank, New

Continued on page 19

Equity holdings spotlighted as 2 funds exceed 25%

CHICAGO — The top bank and insurance company equity funds reported on in Pensions & Investments' Performance Evaluation Report have been reaping record returns from their investments.

Of the 256 equity funds reported on for the quarter ending June 30, the top five funds had returns ranging from 29.4% to 19.6%. These compare with the top five returns for the first quarter, which ranged from 18.2% to 17.2%.

Manufacturers Life Insurance Co., Toronto, led the quarterly returns with 29.4%.

Manufacturers Life also held the top spot for the other periods reported on with a return of 160% for the year ending June 30; 49.6% annualized for the three-year period; 38.9% annualized for five years; and 26.3% annualized for 10 years.

Manufacturers Life is a newcomer to the equity commingled fund rankings. In the past, the equity fund had been listed erroneously under the Canadian-fund section of P.I.P.E.R. to include the fund's returns with U.S. equity commingled funds because its characteristics better fit the criteria used in that section.

Besides Manufacturers Life, the top performers for the quarter included Citizens Trust Co., Madison, Wis., in second place with a return of 26.2%; California First Bank, San Diego, 20.4%; Security Pacific National Bank, Los Angeles, 19.6%; and Hospital Trust Investors, Providence, R.I., 19.6%.

For the year ending June 30, 1983, Manufacturers Life returned 160%. Security Pacific ranked second with an annual return of 118.9% and Citizens Trust Co. ranked third with 111.5%.

First Variable Life Insurance Co., Little Rock, Ark., whose quarterly rankings placed it 33rd, found itself in fourth place for the year with an annualized return of 101.6%.

For the three-year period ending June 30, Citizens Trust again was among the top funds, coming in second with a return of 38.2%. Employers Insurance of Wausau, Wis., ranked third at 36.2%; First National Bank

Continued on page 19

Manufacturers Life

Insurer's strategy places it at the top

By Linda Savage Ruhe

TORONTO — Manufacturers Life Insurance Co., Toronto, has topped the pooled equity fund charts for all the periods recorded in Pensions & Investments' Performance Evaluation Report.

Its \$6 million fund uses a strategy that allows it to move quickly to take advantage of opportunities in the market. The firm also has had good returns with its other, larger, pooled funds.

The firm doesn't have an in-house research department, so it has cultivated analysts from regional brokerage houses primarily in the Midwest, South and West Coast to inform it of hot stocks.

"They know that we are prepared to buy and sell quickly and therefore are diligent about informing us about good buys," explained Donald Parkinson, vice president in charge of North American equity and segregated funds.

In selecting stocks, the insurance company looks for those stocks that have a minimum downside risk of 10% to 15%, but at the same time have a potential during the next year of moving up between 50% to 100% in a bull market.

The portfolio managers use a combination of fundamental evaluation and technical analysis to project the potential of the stocks in the fund. Factors such as price-earnings and price-to-book ratios are looked at.

The \$6 million equity fund, which has been in existence for 15 years, includes assets from six institutional clients with investments ranging from \$250,000 to \$2 million. These are all U.S. clients and the fund is invested entirely in U.S. equities.

As reported in the most recent P.I.P.E.R. statistics, the \$6 million fund for the quarter ending June 30 had a return of 29.4%; for the year, a return of 160%; on an annualized basis for three years, 49.6%; five years, 38.9%; and 10 years, 26.3%.

The fund is only a small part of the \$700 million in assets the Toronto-based insurance company manages for roughly 300 U.S. and Canadian companies looking to invest in the U.S. equity market.

The firm's larger fund, called the American Stock Fund, has \$40 million in assets from Canadian pension funds that are interested in investing in U.S. equities. Canadian companies are permitted to invest up to 10% of their assets outside Canada. Some investors in this fund include the Canadian operations for Union Carbide, GTE and Ford Motor.

Returns for this fund for the most recent quarter were 15.39%; for the year, 89.6%.

The rest of the assets represent general assets of the insurance

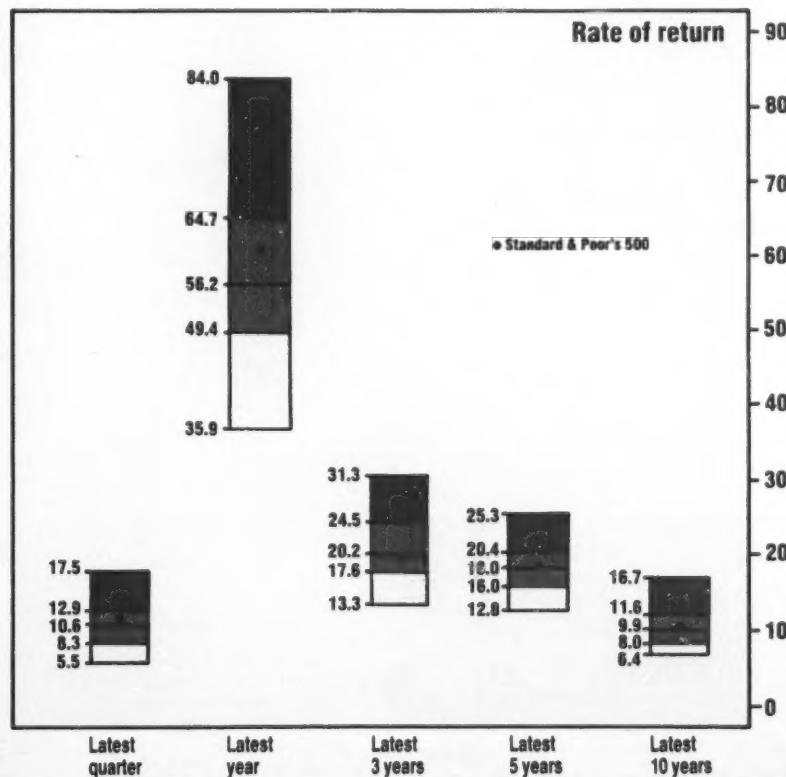
Continued on page 18

Pooled equity accounts of banks and insurance companies

All periods end June 30, 1983, and all figures, except latest quarter, are annualized total returns.

P.I.P.E.R. report compiled by Rogers, Casey & Barksdale Inc.

Key
Highest
1st quartile
Median
3rd quartile
Lowest



Pooled fixed-income accounts of banks and insurance companies

All periods end June 30, 1983, and all figures, except latest quarter, are annualized total returns.

P.I.P.E.R. report compiled by Rogers, Casey & Barksdale Inc.

Key
Highest
1st quartile
Median
3rd quartile
Lowest

